

Message Text

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ORIGIN PM-05

INFO OCT-01 EUR-12 ISO-00 TRSE-00 DODE-00 L-03 SS-15

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DRAFTED BY PM/SAS:SGEIS:RF

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TREASURY - MR. CROSSWHITE

EUR/CE - MR. LAUDERDALE

EUR/SE - MR. MARCOTT

DOD/DSAA - COL. DILLARD (INFO)

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FM SECSTATE WASHDC

TO AMEMBASSY BONN

INFO AMEMBASSY ANKARA

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E.O. 11652: N/A

TAGS: MASS, GW, TU

SUBJECT: US ARMS SALES AND FINANCING FOR TURKEY

REF: BONN 2430

1. AT PRESENT US ARMS SALES TO TURKEY ARE LIMITED BY SECTION 620(X) OF THE FOREIGN ASSISTANCE ACT, WHICH PERMITS FOREIGN MILITARY SALES (FMS) TO TURKEY FOR CASH, CREDIT OR GUARANTIES -- UP TO A LIMIT OF \$175 MILLION FOR FY 1978 -- WHEN THE PRESIDENT DETERMINES ON A CASE-BY-CASE BASIS THAT SUCH SALES ARE NECESSARY FOR TURKEY TO MEET HER NATO OBLIGATIONS. IN FY 76/77 AND FY 77, TURKISH FMS PURCHASES WERE LIMITED TO \$125 MILLION EACH FISCAL YEAR.

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2. THERE ARE TWO TYPES OF FMS FINANCING WHICH THE USG CAN PROVIDE: DOD DIRECT CREDITS AND LOAN GUARANTIES. ALL FINANCING PROVIDED TURKEY SINCE FY 76/77 HAS BEEN IN FORM OF LOANS ISSUED BY THE FEDERAL FINANCING BANK AND GUARANTEED BY DOD. THE GOVERNMENT OF TURKEY PAYS A ONE-TIME GUARANTY FEE OF ONE QUARTER OF ONE PERCENT OF THE PRINCIPAL AMOUNT OF THE LOAN FROM ITS OWN RESOURCES.

3. INTEREST RATES ON FFB LOANS IS COST OF MONEY TO THE
USG PLUS ONE EIGHTH OF ONE PERCENT TO COVER ADMINISTRATIVE

COSTS. SEPARATE INTEREST RATE IS COMPUTED FOR EACH DRAW
DOWN AT DATE DISBURSED. DISBURSEMENT PERIODS ARE
USUALLY 2 YEARS; PRINCIPAL REPAYMENT IS USUALLY IN TEN
YEARS INCLUDING A TWO YEAR GRACE PERIOD. THERE IS NO
GRACE PERIOD ON INTEREST PAYMENTS. VANCE

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